



**COUNTY OF LOS ANGELES
DEPARTMENT OF AUDITOR-CONTROLLER**

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November 30, 2010

TO: Supervisor Gloria Molina, Chair
Supervisor Mark Ridley-Thomas
Supervisor Zev Yaroslavsky
Supervisor Don Knabe
Supervisor Michael D. Antonovich

FROM: Wendy L. Watanabe
Auditor-Controller

SUBJECT: **FISCAL REVIEW OF GARCES RESIDENTIAL CARE - A GROUP
HOME FOSTER CARE CONTRACTOR**

At the request of the Department of Children and Family Services (DCFS), we reviewed the fiscal operations of Garces Residential Care (Garces or Agency) from January 1, 2008 through December 31, 2008. Garces is licensed to operate one group home (GH) with a resident capacity of six children. Garces is located in the Fifth Supervisorial District. DCFS and Probation Department (Probation) contract with Graces to care for foster children placed in the Agency's home. DCFS paid the Agency a total of \$358,879 in GH foster care funds during calendar year 2008.

The issuance of our report to your Board was delayed in part by changes in federal and State regulations regarding possible repayment of questioned costs from fiscal audits. To enable Garces to begin taking corrective action immediately, we discussed the findings and recommendations from our review with Agency management and DCFS on April 28, 2009.

Summary of Findings

We identified \$2,587 in unallowable costs and \$76,042 in unsupported/inadequately supported costs. DCFS indicated that Garces has signed an agreement to repay the unallowable and questioned costs.

We also noted that DCFS and the Agency need to work together to resolve and collect overpayments. Garces also needs to strengthen its controls over bank reconciliations,

accounting and disbursement procedures and payroll/personnel procedures. Finally, the Agency needs to take steps to ensure that its Board of Directors is independent. Details of our findings are discussed in Attachment I.

The findings in this report are significant and Garces needs to take action to address the recommendations in this report.

Review of Report

We discussed our findings with Garces' management and DCFS on April 28, 2009, but were unable to issue our final report to your Board due to changes in federal and State regulations. The Agency's response to this report, which is incorporated into DCFS' Fiscal Corrective Action Plan (Attachment II), indicates the Agency's general agreement with our findings and recommendations. The Agency has also agreed to repay the unallowable and unsupported/inadequately supported costs. We thank Garces' management and staff for their cooperation during our review.

This audit is not intended to be, and does not constitute, the discovery or identification of an overpayment for purposes of the federal Improper Payments Act, related California State laws, including but not necessarily limited to Welfare and Institutions Code Sections 11466.23, 11466.235, 11466.24, etc., nor State regulations intended to implement either the federal Improper Payments Act or related provisions in State law. This audit is intended solely to assist the County Department of Children and Family Services in managing its contractual relationships. Consequently, this report will be forwarded to the County Department of Children and Family Services in order that it might take further action, as it deems appropriate, based on its contents. Such further action may, or may not, include the discovery or identification of an overpayment for purposes of federal or State law.

Please call me if you have any questions, or your staff may contact Jim Schneiderman at (213) 253-0101.

WLW:MMO:JLS:MWM

Attachments

c: William T Fujioka, Chief Executive Officer
Patricia S. Ploehn, Director, Department of Children and Family Services
Donald H. Blevins, Chief Probation Officer
Carlos Garces, Executive Director, Garces Residential Care
Board of Directors, Garces Residential Care
Cora Dixon, Bureau Chief, Foster Care Audits Bureau, CA Dept of Social Services
Commission for Children and Families
Public Information Office
Audit Committee

Garces Residential Care Group Home
Fiscal Review

REVIEW OF EXPENDITURES/REVENUES

We identified \$2,587 in unallowable costs and \$76,042 in unsupported/inadequately supported costs. In addition, DCFS and Garces need to work together to resolve some potential overpayments. Details of these costs/overpayments are discussed below.

Applicable Regulations and Guidelines

Garces Residential Care is required to operate its GH in accordance with the following federal, State and County regulations and guidelines:

- GH Contract, including the Auditor-Controller Contract Accounting and Administration Handbook (A-C Handbook)
- Federal Office of Management and Budget Circular A-122, Cost Principles for Non-Profit Organizations (Circular A-122)
- California Department of Social Services Manual of Policies and Procedures (CDSS-MPP)
- California Code of Regulations, Title 22 (Title 22)

Unallowable Costs

We identified \$2,587 in unallowable expenditures:

- \$2,189 in unallowable interest and penalties; \$1,029 for credit card finance charges, \$597 for interest on a home equity line of credit, \$352 in non-sufficient fund (NSF) and overdraft fees and \$211 in late fees for insurances services. Circular A-122 Sections 16 and 23 indicate that penalties and interest are unallowable costs.
- \$210 for cable services that did not benefit the GH. The cable services were provided to a location that was not owned or used by the GH program. A-C Handbook Section C.1.5 states that only those expenditures that are necessary, proper and reasonable to carry out the purposes and activities of the program are allowable.
- \$188 for alcoholic beverages purchases. Circular A-122 Section 2 states the cost of alcoholic beverages is unallowable.

Unsupported/Inadequately Supported Costs

A-C Handbook Section A.3.2 states that all expenditures must be supported by original vouchers, invoices, receipts, cancelled checks or other documentation. Unsupported expenditures will be disallowed upon audit.

We identified \$76,042 in GH expenditures that were either unsupported or were not adequately supported. Specifically:

- \$66,852 in inadequately supported credit card charges, for items such as home fixtures, food and postage. The Agency provided credit card statements and cancelled checks, but no receipts to substantiate the expenditures were GH related.
- \$6,279 in inadequately supported costs involving payments for home repairs, accounting services and clothing expenses. The Agency provided cancelled checks for these expenses, but no original itemized receipts, and no explanation of the nature of the expenses and how they benefited the GH program.
- \$2,911 in inadequately supported payments on a Home Equity Line of Credit. We were unable to verify that the loan proceeds were deposited into the Agency's bank account. As a result, we could not determine if the funds were used for the GH program.

Recommendations

1. **DCFS management resolve the \$78,629 (\$2,587 + \$76,042) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.**

Garces' management:

2. **Ensure that foster care monies are used for allowable expenditures to carry out the purpose and activities of the Agency.**
3. **Maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

POTENTIAL DCFS OVERPAYMENTS

DCFS records show some potential overpayments. DCFS and Garces should work together to resolve the overpayment, and DCFS should collect any verified overpayments. Garces' management should ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.

Recommendations

4. **DCFS management work with Garces to resolve the overpayments and ensure that Garces reimburses the County for any confirmed overpayments.**
5. **Garces' management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

CONTRACT COMPLIANCE AND INTERNAL CONTROLS

We noted some contract compliance issues and internal control weaknesses. DCFS should ensure that Garces management takes action to address the recommendations in this report. DCFS should also monitor to ensure the actions result in permanent changes.

Bank Reconciliations

A-C Handbook Section B.1.4 states that bank statements should be received and reconciled by someone with no cash handling, check writing or bookkeeping roles. Monthly bank reconciliations should be prepared within 30 days of the bank statement date and reviewed by management for appropriateness and accuracy. Both the preparer and the reviewer should sign and date the bank reconciliations.

The Agency does not prepare bank reconciliations as required by the A-C Handbook. The Agency's accountant runs a reconciliation report from its accounting software, but this information is not compared to the bank statements. In addition, the reconciliation report is not signed by the preparer or by Agency management to document their review.

Bank reconciliations are necessary to identify and investigate any discrepancies between the Agency's accounting records and bank statements due to timing, error or fraud. The Agency should ensure to complete bank reconciliations as required.

Recommendations

Garces' management ensure:

6. **Bank statements are reconciled on a monthly basis to the Agency's accounting records by someone with no check writing or bookkeeping functions.**
7. **Management reviews the reconciliations for appropriateness and accuracy.**

8. Both the preparer and reviewer sign and date the reconciliations.**Accounting and Disbursements**

A-C Handbook Section B.2.1 states that all disbursements for expenditures, other than petty cash, shall be made by check. In addition, if the bookkeeper signs checks, a second signature is required on the checks.

We reviewed a sample of 40 non-payroll expenditures and noted the following weaknesses in the Agency's accounting and disbursement procedures:

- Twenty-five (63%) check payments reviewed were prepared, recorded and signed by the Agency's accountant. There was no second signer. Check disbursements should be approved by someone independent of check preparation and bookkeeping activities. If the accountant signs checks, a second signature should be required on all payments to verify the appropriateness of the expense, regardless of the amount.
- Six (15%) cash withdrawals totaling \$4,000. The Agency had receipts that supported these expenditures for food, repairs and program activities. The A-C Handbook requires all disbursements for expenditures, other than petty cash, to be made by check. Garces should establish a petty cash fund for small, incidental expenses and make all other disbursements by check.
- Two (5%) invoices were not marked "paid". All supporting documentation should be marked "paid" or otherwise cancelled to prevent reuse or duplicate payments.

Recommendations**Garces' management:**

- 9. Require a second signature on all checks by someone independent of bookkeeping responsibilities.**
- 10. Pay all routine non-incidental expenses by check.**
- 11. Establish a petty cash fund for small incidental expenses and stop making cash withdrawals.**
- 12. Ensure all supporting documentation is marked "paid" or otherwise cancelled to prevent reuse or duplicate payments.**

Payroll/Personnel Controls

CDSS-MPP Section 11-402 requires that supporting documentation be maintained for all program expenditures, including employee salary rates. In addition, A-C Handbook

Section B.3.1 states that timecards or time reports must be signed by the employee and supervisor to certify the accuracy of the reported time.

We reviewed 12 employee personnel and salary records and noted the following:

- Eleven (92%) employees' personnel files did not contain current salary/pay rate information.
- Four (33%) timecards were not signed by the supervisors.

Recommendations

Garces' management:

13. **Ensure employees salary/pay rates are consistently documented in the employees' personnel files.**
14. **Ensure timecards are consistently signed by the supervisor to certify the accuracy of the reported time.**

Board of Directors Independence

California Corporations Code Section 5227 states that not more than 49% of the persons serving on the board of any corporation may be "interested persons". "Interested persons" includes any person currently being compensated by the corporation for services rendered to it within the previous 12 months, whether as a full-time or part-time employee, or independent contractor.

Three (60%) of the five Garces' Board members were compensated by the Agency. Specifically, the Board President worked as the Executive Officer and was paid \$26,272, the Board Treasurer worked as the Financial Officer and was paid \$26,780 and the Board President was paid \$9,616 for Administrator duties. The Agency needs to comply with the California Corporations Code and ensure that the Board's independence is not compromised.

Recommendation

15. **Garces' management ensure that the Board of Directors is organized in accordance with the California Corporations Code.**



PATRICIA S. PLOEHN, LCSW
Director

May 13, 2010

Carlos Garces, Executive Director
Garces Residential Care Services
2243 N. Mountain Avenue
Claremont, CA 91711

Dear Mr. Garces:

**AUDITOR-CONTROLLER'S FISCAL AUDIT REPORT ON GARCES RESIDENTIAL CARE - A
GROUP HOME FOSTER CARE CONTRACTOR**

We have reviewed your fiscal corrective action plan (FCAP) dated May 7, 2010 in response to the Auditor-Controller's draft fiscal audit report that was distributed at the exit conference on January 12, 2010. The FCAP fully addresses 15 recommendations (see Attachment III). In addition, the two recommendations directed to DCFS were fully addressed.

With regard to the \$78,629 in questioned costs, Garces Residential Care Services and DCFS agreed that the total of \$78,629 was disallowed and must be repaid to the Department. Please contact the Los Angeles County Treasurer and Tax Collector Department, by May 25, 2010 to schedule a time to sign a repayment agreement for the amount of \$78,629.

Kathy Gloster, Operations Chief
Los Angeles County Treasurer and Tax Collector Revenue and Enforcement
225 N. Hill Street Room 122, Los Angeles, CA 90012
(213) 893-7968
kgloster@ttc.lacounty.gov

With regard to the overpayment, please contact Luis Castaneda, Supervisor, Overpayment Unit, (213) 351-3212 to reconcile any overpayments on record. DCFS records as of May 13, 2010 reflect a \$67,080 overpayment balance for this agency. DCFS will require a signed repayment agreement for the overpayment balance.

If you have any questions, please contact Ali Gomaa-Mersal of my staff at (213) 351-3209.

Sincerely,

A handwritten signature in cursive script, appearing to read "Barbara Abrams".

Barbara Abrams, Interim ASM III
Fiscal Monitoring and Special Payments

Attachments

c: Mike McWatters, Chief Audit Division
Russell Lingo, Principal Accountant-Auditor

"To Enrich Lives Through Effective and Caring Service"

Board of Supervisors
GLORIA MOLINA
First District
MARK RIDLEY-THOMAS
Second District
ZEV YAROSLAVSKY
Third District
DON KNABE
Fourth District
MICHAEL B. ANTONGVICH
Fifth District

**FISCAL REVIEW OF
GARCES RESIDENTIAL CARE
A GROUP HOME FOSTER CARE CONTRACTOR**

Note: Department of Children and Family Services (DCFS) will only review documentation not previously provided to the Auditor-Controller.

Summary of Recommendations

Based on the FCAP dated May 7, 2010, submitted by Garces Residential Care Services the status of each recommendation is summarized as follows:

- 15 Recommendations (1-15) were fully addressed.
- 2 Recommendations (1&4) directed to the Department were addressed.

Recommendation Status

1. ***DCFS management resolve the \$78,629 (\$2,587 + \$76,042) in unallowable and unsupported/inadequately supported expenditures and collect any disallowed amounts.***

Agency Proposed FCAP: GRCS will work with DCFS to resolve unallowable and unsupported expenditures. Danilo Garces, CFO will work with DCFS to set up payment plan. An appointment will be scheduled by May 25, 2010 to ensure plan is set.

DCFS Response: DCFS accepts the agency's response. Please contact the Los Angeles County Treasurer and Tax Collector Department, as soon as possible to schedule a time to sign a repayment agreement for the amount of \$78,629. Please contact

Kathy Gloster
Operations Chief
Los Angeles County Treasurer and Tax Collector Revenue and Enforcement
225 N. Hill Street Room 122
Los Angeles, CA 90012
(213) 893-7968
kgloster@ttc.lacounty.gov

2. **Garces' management ensure that foster care monies are use for allowable expenditures to carry out the purpose and activities of the Agency.**

Agency Proposed FCAP: GRCS will ensure that monies used for allowable expenditures to carry out the purpose and activities for the agency. Danilo Garces will be appointed to ensure monies are being carried out with the purpose for activities related to group home activities.

DCFS Response: DCFS accepts the agency's policy.

3. **Garces' management maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts.**

Agency Proposed FCAP: GRCS will maintain adequate supporting documentation for all Agency expenditures, including original itemized invoices and receipts. Danilo Garces will ensure that receipts are collected and documentation supporting transaction involving group activities are compiling with DCFS requirements.

DCFS Response: DCFS accepts the agency's policy.

4. **DCFS management work with Garces to resolve the overpayments and ensure that Garces reimburses the County for any confirmed overpayments.**

Agency Proposed FCAP: GRCS will work with the County to resolve overpayments and ensure that GRCS reimburse the County for any confirmed overpayments. Carlos Graces will schedule overpayment appointment with the County to resolve issues regarding overpayments and ensure confirmed overpayments are resolved according to payment plan developed.

DCFS Response: Please contact Luis Castaneda, Supervisor, Overpayment Unit, (213) 351-3212 to reconcile any overpayments on record. DCFS records as of May 13, 2010 reflect a \$67,080 overpayment balance for this agency. DCFS will require a signed repayment agreement for the overpayment balance.

5. **Garces' management ensure that any future payment discrepancies are immediately reported to DCFS and any excess amounts are repaid promptly.**

Agency Proposed FCAP: All future overpayments will be repaid and addressed immediately by Danilo Graces.

DCFS Response: DCFS accepts the agency's policy.

6. **Garces' management ensure bank statements are reconciled on a monthly basis to the Agency's accounting records by someone with no check writing or bookkeeping functions.**

Agency Proposed FCAP: GRCS will ensure statements are reconciled on a monthly basis to the Agency's accounting records by someone with no check writing or bookkeeping functions.

DCFS Response: DCFS accepts the agency's policy.

- 7. Garces' management ensure management reviews the reconciliations for appropriateness and accuracy.**

Agency Proposed FCAP: GRCS will ensure reviews for the reconciliations for appropriateness and accuracy. Danilo Garces will ensure the implementation of reviews and signatures for all bank reconciliations with reviewer that will be appointed and announced as soon as one is found. CFO and reviewer will meet once a month to review records and ensure accuracy and proper documentation for reconciliation.

DCFS Response: DCFS accepts the agency's policy.

- 8. Garces' management ensure both the preparer and reviewer sign and date the reconciliations.**

Agency Proposed FCAP: GRCS preparers and reviewers will sign and date the reconciliations.

DCFS Response: DCFS accepts the agency's policy.

- 9. Garces' management require a second signature on all checks by someone independent of bookkeeping responsibilities.**

Agency Proposed FCAP: GRCS will require a second signature on all checks by someone independent of bookkeeping responsibilities. Danilo Garces will appoint a second person to sign all checks that is free of bookkeeping responsibilities.

DCFS Response: DCFS accepts the agency's policy.

- 10. Garces' management pay all routine non-incidental expenses by check.**

Agency Proposed FCAP: GRCS will pay all routine non-incidental expenses by check. All routine non-incidental expenses will be paid by check and a second signature completed.

DCFS Response: DCFS accepts the agency's policy.

- 11. Garces' management establish a petty cash fund to be used for small incidental expenses and stop making cash withdrawals.**

Agency Proposed FCAP: A petty cash fund will be established for small incidental expenses and will stop making cash withdrawals. GRCS will establish a petty cash fund that will be kept at the facility and overseen by the Administrator, David Cuevas, who will send ledger back to Danilo Garces for review every month.

DCFS Response: DCFS accepts the agency's policy.

- 12. Garces' management ensure all supporting documentation is marked "paid" or otherwise canceled to prevent reuse or duplicate payments.**

Agency Proposed FCAP: GRCS will ensure all documentation is marked "paid" or otherwise cancelled to prevent reuse or duplicate payments. Danilo Garces will also document items as paid to ensure and prevent reuse or duplications.

DCFS Response: DCFS accepts the agency's policy.

- 13. Garces' management ensure employees salary/pay rates are consistently documented in the employees' personnel files.**

Agency Proposed FCAP: GRCS will ensure employees salaries/pay rates are consistently documented in the employees Personnel files. Administrator, David Cuevas will also document pay rates / salaries in the employees' files as new employees are hired and review current files to ensure pay rates are visible and documented.

DCFS Response: DCFS accepts the agency's policy.

- 14. Garces' management ensure timecards are consistently signed by the supervisor to certify the accuracy of the reported time.**

Agency Proposed FCAP: Timecards will be consistently signed by the supervisor to certify the accuracy of the reported times. Administrator, David Cuevas will be responsible for properly signing timecards as they are reviewed for verification of hours and accuracy.

DCFS Response: DCFS accepts the agency's policy.

- 15. Garces' management ensure that the Board of Directors is organized in accordance with the California Corporations Code.**

Agency Proposed FCAP: GRCS will ensure that the Board of Directors is organized in accordance with the California Corporations Code. The CEO Carlos Graces will ensure that the governing body of GRCS will comply with all applicable laws and corporate procedures established by the state of California. Any and or all changes that occur in the future in regards to legislation will be addressed and implemented accordingly.

DCFS Response: DCFS accepts the agency's policy.